

AR42



WCI CANADA LIMITED 1974 ANNUAL REPORT



WCI CANADA LIMITED AND SUBSIDIARIES

BOARD OF DIRECTORS

Clark M. Beattie
Roy H. Holdt
Kenneth A. Jones
Hubert T. Mandeville
Ward C. Pitfield
Edward S. Reddig
Henry S. Reddig
Paul F. Salipante
Ward Smith
Karl E. Ware

OFFICERS

Edward S. Reddig
Chairman of the Board

Paul F. Salipante
President

Roy H. Holdt
Executive Vice President

Henry S. Reddig
Vice President

Karl E. Ware
Vice President

Ward Smith
Vice President &
Assistant Secretary-Treasurer

Claude Lafontaine
Secretary & Treasurer

SUBSIDIARIES & DIVISIONS

FRANKLIN MANUFACTURING
COMPANY (CANADA) LTD.
Edwin R. Vaughan
President

HUPP CANADA LTD.
Yvon L'Heureux
President

KELVINATOR SALES DIVISION
Derek Powell
President

RESCO DIVISION
Gordon L. Besley
President

ROY AND GIBSON
SALES DIVISION
Jacques Lebeuf
Vice President

WHITE CONSOLIDATED
INDUSTRIES, LTD.
Richard E. Lavery
President

HEAD OFFICE

WCI CANADA LIMITED
490 YORK ROAD, GUELPH, ONT.

REGISTRAR

THE ROYAL TRUST CO.
TORONTO, MONTREAL

INDEPENDENT AUDITORS
ERNST & ERNST, MONTREAL

2-30

Rag +
Cibasen

821-2730
Toronto

NO

514-589-5681

519-821-2730

Floyd Siddell

Hyatt
Regency

11 am

216-252-3700

WCI Ltd
group - V-pres



WCI CANADA LIMITED AND SUBSIDIARIES

Report to the Shareholders for the year ended December 31, 1974

The year 1974 was an excellent one for your Company and continued the growth trend in sales and earnings which has spanned the last four years. Sales increased 20% over 1973 to a record \$82,501,536. Net income was a record \$6,167,358 or \$3.91 per share for the calendar year 1974, compared with earnings of \$4,740,332 or \$3.01 per share before extraordinary items in the twelve months ended December 31, 1973. Tax reductions applicable to previous years added 81 cents per share to 1973 earnings making total earnings \$3.82 per share for that year.

As previously announced, the Company changed its year end from September 30, 1974 to December 31, 1974 and the above stated figures are for the new calendar year period. The financial statements attached show operating results for the twelve months ended September 30, 1974 in addition to the quarter ended December 31, 1974. This is required to accomplish the transition to a calendar year reporting basis. Restated calendar year figures are presented in the Five-Year Record for comparative purposes.

On February 20, 1975, the Board of Directors announced that the quarterly dividend had been increased to 20 cents per share or an annual rate of 80 cents per share. During the year 1974, four quarterly dividend payments of 15 cents per share were made to shareholders. These dividends represent the first paid by the Company since 1968 and reflect the improvement in the Company's financial position.

Our financial position has continued to be strong, with working capital increasing to \$22,722,595 at December 31, 1974 from \$18,965,480 at December 31, 1973. We have improved and modernized our facilities during the year and plan further facility expansions for 1975.

All segments of our major appliance sales were strong during 1974. Due to shortages of critical components and materials, we were pressed throughout the year to meet delivery schedules. The material supply situation improved toward the end of 1974 and early 1975 permitting replenishment of finished unit inventories to more normal levels. Food freezers continue to be in high demand and we anticipate further substantial growth in our sales of this product in 1975.

We recently announced that your Company will acquire the household appliance business of Westinghouse Canada Ltd., subject to the approval of the Canadian government. Additional information on the progress of this transaction will be available at the time of our Annual Shareholders' Meeting.

Although general economic conditions have entered a more difficult period since the end of the year, our goal is to improve our performance throughout our organization. We sincerely appreciate the continued support of our customers and the excellent cooperation of our employees in achieving the record levels of 1974. With their assistance, we look forward to reaching our objectives in 1975.

On behalf of the Board,

Chairman

President

Guelph, Ontario
March 21, 1975



WCI CANADA LIMITED AND SUBSIDIARIES

Statement of Consolidated Income

	Year ended September 30,		Period of three months ended December 31,	
	1974	1973	1974	1973
	(Presented due to change in year end - Note 1)			
Net sales	\$77,282,454	\$66,143,981	\$22,929,097	\$17,817,590
Interest income — Note 7	392,112	—	164,854	121,248
	<u>\$77,674,566</u>	<u>\$66,143,981</u>	<u>\$23,093,951</u>	<u>\$17,938,838</u>
Income before undernoted items	\$11,142,174	\$ 9,919,639	\$ 4,016,748	\$ 2,789,531
Depreciation and amortization	778,314	714,977	156,315	121,680
Interest expense	874,115	637,029	202,061	207,092
	<u>1,652,429</u>	<u>1,352,006</u>	<u>358,376</u>	<u>328,772</u>
Income before income taxes and extraordinary items	9,489,745	8,567,633	3,658,372	2,460,759
Income taxes:				
Current	3,582,500	3,847,926	1,496,000	985,500
Deferred	367,500	136,800	175,000	115,500
	<u>3,950,000</u>	<u>3,984,726</u>	<u>1,671,000</u>	<u>1,101,000</u>
Income before extraordinary items	5,539,745	4,582,907	1,987,372	1,359,759
Extraordinary items — Note 3	102,000	1,738,000	—	102,000
Net income	<u>\$ 5,641,745</u>	<u>\$ 6,320,907</u>	<u>\$ 1,987,372</u>	<u>\$ 1,461,759</u>
Earnings per share:				
Income before extraordinary items	\$ 3.52	\$ 2.91	\$ 1.26	\$.86
Extraordinary items06	1.10	—	.06
Net income	<u>\$ 3.58</u>	<u>\$ 4.01</u>	<u>\$ 1.26</u>	<u>\$.92</u>

See notes to financial statements



WCI CANADA LIMITED AND SUBSIDIARIES

Statement of Consolidated Changes in Financial Position

	Year ended September 30, 1974	1973	Period of three months ended December 31, 1974	1973 (Presented due to change in year end - Note 1)
Source of funds				
From operations:				
Net income	\$ 5,641,745	\$ 6,320,907	\$ 1,987,372	\$ 1,461,759
Items not affecting working capital:				
Depreciation and amortization	778,314	714,977	156,315	121,680
Deferred credits	367,500	150,513	175,000	115,500
Total from operations	\$ 6,787,559	\$ 7,186,397	\$ 2,318,687	\$ 1,698,939
Application of funds				
Cash dividends	\$ 709,227	\$ —	\$ 236,409	\$ —
Additions to property, plant and equipment — net	1,226,086	1,139,956	229,030	557,797
Repayment of long-term debt and reclassification to current maturities	1,807,319	4,257,636	451,911	451,993
Increase in working capital	3,044,927	1,788,805	1,401,337	689,149
	\$ 6,787,559	\$ 7,186,397	\$ 2,318,687	\$ 1,698,939
Changes in components of working capital are summarized as follows:				
Increase (decrease) in current assets:				
Cash	\$ (245,447)	\$ 1,069,049	\$ 468,014	\$ (857,455)
Short-term investments	(3,000,000)	3,000,000	4,387,792	2,450,000
Trade receivables	1,147,745	902,223	(698,628)	(1,351,650)
Affiliated companies	(304,479)	459,312	(136,194)	81,405
Notes receivable from an affiliated company	4,250,000	—	(4,250,000)	—
Inventories	4,781,572	(1,596,613)	2,126,857	1,065,469
Prepaid expenses	156,049	77,679	(262,490)	(109,897)
Increase (decrease) in current assets	6,785,440	3,911,650	1,635,351	1,277,872
Decrease (increase) in current liabilities:				
Trade and sundry accounts payable	(1,604,249)	(754,966)	198,546	(358,299)
Due to affiliated companies	(537,575)	(582,574)	(537,023)	23,016
Income taxes	(1,599,006)	1,022,331	104,381	(253,307)
Current maturities of long-term debt	317	(1,807,636)	82	(133)
Decrease (increase) in current liabilities	(3,740,513)	(2,122,845)	(234,014)	(588,723)
Increase (decrease) in working capital	\$ 3,044,927	\$ 1,788,805	\$ 1,401,337	\$ 689,149

Statement of Consolidated Retained Income

	Year ended September 30, 1974	1973	Period of three months ended December 31, 1974	1973
Retained income at beginning of period	\$11,840,952	\$ 5,520,045	\$16,773,470	\$11,840,952
Net income for the period	5,641,745	6,320,907	1,987,372	1,461,759
	17,482,697	11,840,952	18,760,842	13,302,711
Deduct cash dividends	709,227	—	236,409	—
Retained income at end of period	\$16,773,470	\$11,840,952	\$18,524,433	\$13,302,711

See notes to financial statements



WCI CANADA LIMITED AND SUBSIDIARIES

Consolidated Balance Sheet

	September 30,		December 31,	
	1974	1973	1974	1973
			(Presented due to change in year end - Note 1)	
ASSETS				
Current assets				
Cash	\$ 2,135,958	\$ 2,381,405	\$ 2,603,972	\$ 1,523,950
Short-term investments	—	3,000,000	4,387,792	5,450,000
Receivables:				
Trade	11,070,583	9,922,838	10,371,955	8,571,188
Affiliated companies	208,921	513,400	72,727	594,805
Notes from an affiliated company	4,250,000	—	—	—
	15,529,504	10,436,238	10,444,682	9,165,993
Inventories — Note 4	15,874,081	11,092,509	18,000,938	12,157,978
Prepaid expenses	507,564	351,515	245,074	241,618
Total current assets	34,047,107	27,261,667	35,682,458	28,539,539
Property, plant and equipment — Note 5				
Land	179,308	182,449	179,308	182,449
Buildings	6,762,683	7,455,644	6,351,602	7,500,736
Machinery and equipment	10,459,349	9,309,789	10,097,985	9,605,858
	17,401,340	16,947,882	16,628,895	17,289,043
Less allowances for depreciation and amortization	9,864,040	9,858,354	9,018,880	9,763,398
	7,537,300	7,089,528	7,610,015	7,525,645
Excess of issue price of shares over net assets of subsidiaries acquired	11,113,917	11,113,917	11,113,917	11,113,917
	\$52,698,324	\$45,465,112	\$54,406,390	\$47,179,101

Approved on behalf of the board:

E. S. REDDIG, *Director*

P. F. SALIPANTE, *Director*

See notes to financial statements



WCI CANADA LIMITED AND SUBSIDIARIES

Consolidated Balance Sheet

	September 30,		December 31,	
	1974	1973	1974	1973
LIABILITIES AND SHAREHOLDERS' EQUITY			(Presented due to change in year end - Note 1)	
Current liabilities				
Trade and sundry accounts payable	\$ 7,627,308	\$ 6,023,059	\$ 7,428,762	\$ 6,381,358
Due to affiliated companies	1,623,284	1,085,709	2,160,307	1,062,693
Income taxes	1,667,938	68,932	1,563,557	322,239
Current maturities of long-term debt	1,807,319	1,807,636	1,807,237	1,807,769
Total current liabilities	12,725,849	8,985,336	12,959,863	9,574,059
Long-term debt — Note 6	5,038,580	6,845,899	4,586,669	6,393,906
Provision for warranty	193,000	193,000	193,000	193,000
Deferred income taxes	1,061,386	693,886	1,236,386	809,386
Shareholders' equity				
Capital Stock, no par value:				
Authorized — 5,000,000 shares				
Issued — 1,576,060 shares	16,906,039	16,906,039	16,906,039	16,906,039
Retained income	16,773,470	11,840,952	18,524,433	13,302,711
	33,679,509	28,746,991	35,430,472	30,208,750
CONTINGENT LIABILITIES — Note 8				
	<u>\$52,698,324</u>	<u>\$45,465,112</u>	<u>\$54,406,390</u>	<u>\$47,179,101</u>

To the Shareholders, WCI Canada Limited,
(A public company incorporated under the laws of Canada), Guelph, Ontario.

We have examined the consolidated balance sheets of WCI Canada Limited and subsidiaries as at September 30, 1974 and 1973 and December 31, 1974 and 1973, and the statements of consolidated income, retained income and changes in financial position for the years ended September 30, 1974 and 1973, and for the periods of three months ended December 31, 1974 and 1973. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of WCI Canada Limited and subsidiaries as at September 30, 1974 and 1973 and December 31, 1974 and 1973, and the results of their operations and changes in financial position for the years ended September 30, 1974 and 1973, and for the periods of three months ended December 31, 1974 and 1973, in accordance with generally accepted accounting principles applied on a consistent basis.

Ernst & Ernst

See notes to financial statements

Chartered Accountants



WCI CANADA LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 1974 and 1973 and December 31, 1974 and 1973

Note 1 — Change of Year End

The Company changed its year end from September 30 to December 31, 1974. For comparative purposes, the consolidated financial statements are presented for the periods of three months ended December 31, 1974 and 1973 and for the years ended September 30, 1974, and 1973.

Note 2 — Accounting Policies and Practices

Principles of consolidation:

The consolidated financial statements include the accounts of the Company and all its subsidiaries. Upon consolidation, all significant intercompany accounts and transactions have been eliminated.

Inventories:

Inventories are priced at the lower of cost (principally first-in, first-out) and net realizable value for finished products, merchandise and service parts and replacement cost for other inventories.

Property and depreciation:

Property is carried on the basis of cost and includes expenditures which substantially increase the useful life of existing assets. Routine maintenance repairs, and minor tooling are expensed as incurred. Depreciation is computed by the straight-line method over the estimated useful lives of individual assets.

Excess of issue price of shares over net assets of subsidiaries acquired:

The excess of issue price of shares over net assets of subsidiaries acquired is not being amortized because, in the opinion of management, there has been no decrease in the value of this asset.

Warranties:

A significant percentage of net sales is covered by performance warranties, which as to certain components thereof, extend beyond one year. The Company charges product warranty cost to expense as incurred.

Income taxes:

Deferred income taxes arise from timing differences between financial and tax reporting and relate principally to depreciation.

Note 3 — Extraordinary Items

Extraordinary items principally represent reduction of income taxes resulting from application of losses of prior years.

Note 4 — Inventories

Inventories consist of the following:

	September 30,		December 31,	
	1974	1973	1974	1973
Finished products, merchandise and service parts	\$ 7,553,374	\$ 7,175,689	\$10,208,631	\$ 6,820,548
Raw materials and work in process	8,320,707	3,916,820	7,792,307	5,337,430
	<u>\$15,874,081</u>	<u>\$11,092,509</u>	<u>\$18,000,938</u>	<u>\$12,157,978</u>



WCI CANADA LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 1974 and 1973 and December 31, 1974 and 1973

Note 5 — Land, Buildings and Equipment

Certain manufacturing facilities are not used in the Company's operations. A portion of these facilities has been leased through to April 30, 1977 and an irrevocable option has been granted to the Lessee to purchase this property during the period of the lease for an amount in excess of the undepreciated cost.

Note 6 — Long-term Debt

	September 30,		December 31,	
	1974	1973	1974	1973
Unsecured notes to banks — interest at $\frac{3}{4}\%$ over prime rate payable in quarterly instalments of \$450,000 to May 1978	\$ 6,750,000	\$ 8,550,000	\$ 6,300,000	\$ 8,100,000
Mortgages payable by a consolidated subsidiary, interest 7%, in equal instalments to 1980	95,899	103,535	93,906	101,675
	6,845,899	8,653,535	6,393,906	8,201,675
Less current maturities	1,807,319	1,807,636	1,807,237	1,807,769
	<u>\$ 5,038,580</u>	<u>\$ 6,845,899</u>	<u>\$ 4,586,669</u>	<u>\$ 6,393,906</u>

The unsecured notes payable agreements place certain restrictions on the Company including:

- 1) maintenance of working capital, as defined, of not less than \$15,000,000;
- 2) maintenance of the shareholders' equity at \$22,500,000;
- 3) written approval of the banks to incur any debt senior to existing notes, to encumber any of the presently owned fixed assets and to sell or dispose of any substantial portion of these fixed assets.

Note 7 — Interest Income

The interest income includes interest from an affiliate amounting to \$186,481 at September 30, 1974 (\$ —0— at September 30, 1973) and \$158,927 at December 31, 1974 (\$ —0— at December 31, 1973).

Note 8 — Contingent Liabilities

Guarantees have been given with respect to dealer finance contracts outstanding in the amounts of \$3,020,986 at September 30, 1974 (\$1,900,000 at September 30, 1973) and \$3,509,508 at December 31, 1974 (\$2,391,149 at December 31, 1973).



WCI CANADA LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 1974 and 1973 and December 31, 1974 and 1973

Note 9 — Remuneration of Directors and Officers Charged to Consolidated Operations

	Year ended September 30,				Period of three months ended December 31,			
	1974		1973		1974		1973	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Directors	10	\$ 24,800	8	\$ 400	10	\$ 11,500	8	\$ —
Officers	7	195,700	7	102,275	7	52,980	7	36,425
Officers who are also directors	6		6		6		6	

FIVE-YEAR RECORD

	Year Ended December 31 (Note A)				
	1974	1973	1972	1971	1970
Net sales	\$82,501,536	\$68,484,894	\$61,002,697	\$45,240,704	\$36,230,379
Income (Loss) before extraordinary items	6,167,358	4,740,332	3,860,682	1,248,084	(1,474,730)
Extraordinary items	—	1,270,000	1,505,920	522,617	338,013
Net income (Loss)	6,167,358	6,010,332	5,366,602	1,770,701	(1,136,717)
Income (Loss)					
Per share (Note B)					
Before extraordinary items	3.91	3.01	2.45	.79	(.94)
After extraordinary items	3.91	3.82	3.40	1.12	(.72)

NOTE A

The Company changed its year end from September 30, 1974 to December 31, 1974. For comparative purposes, the figures for the five years are represented for the period of twelve months ended December 31.

Revenues and expenses are represented on a consolidated basis for the years ended December 31, 1974 and 1973. The figures for the year ended December 31, 1972 represent the combined revenues and expenses for the period of nine months ended September 30, 1972, (date of acquisition of the subsidiaries) and the consolidated revenues and expenses for the period of three months ended December 31, 1972. The revenues and expenses for the years ended December 31, 1971 and 1970 are represented on a combined basis as the subsidiaries were acquired in September 1972.

NOTE B

Income per share is based on the 1,576,060 shares presently outstanding.



WCI CANADA LIMITED COMPANIES

CAMBRIDGE, ONTARIO

Franklin Manufacturing Company (Canada) Ltd.

Principal Products: Automatic
Laundry, Home Freezers,
Refrigerators, Steel Tubing.

GUELPH, ONTARIO

Kelvinator Sales Division

Principal Products: Refrigerators,
Electric Ranges, Automatic
Laundry, Home Freezers,
Dishwashers and Commercial
Refrigeration.

GUELPH, ONTARIO

Resco Division

Principal Products: Appliance
Service Parts.

SCARBOROUGH, ONTARIO

White Consolidated Industries, Ltd.

Principal Products: Sewing Machines.

L'ASSOMPTION, QUEBEC

Hupp Canada Ltd.

Principal Products: Refrigerators
and Electric Ranges.

L'ASSOMPTION, QUEBEC

Roy & Gibson Sales Division

Principal Products: Refrigerators,
Electric Ranges, Automatic Laundry,
Home Freezers and Dishwashers.

